Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 5/29/2003

GAIN Report #AS3016

Australia

Cotton and Products

Annual

2003

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Report Highlights:
Australia's 2003/04 cotton crop is forecast to improve only slightly from the sharply reduced 2002/03 level, assuming a continued return to more normal weather conditions. Recent rainfall events suggest that the severe drought conditions experienced in 2002/03 are beginning to break down. However, the severity of the drought in 2002/03 has greatly depleted irrigation water supplies and sharply lowered soil moisture levels. It is anticipated that resulting water shortages will persist into the 2003/04 cropping season and will constrain 2003/04 cotton production to well below normal levels.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1], AS

SECTION I: SITUATION AND OUTLOOK

Australia's 2003/04 cotton crop is forecast to improve only slightly from the sharply reduced 2002/03 level, assuming a continued return to more normal weather conditions. Recent rainfall events suggest that the severe drought conditions experienced in 2002/03 are beginning to break down. However, the severity of the drought in 2002/03 has greatly depleted irrigation water supplies and sharply lowered soil moisture levels. It is anticipated that resulting water shortages will persist into the 2003/04 cropping season and will constrain 2003/04 cotton production to well below normal levels. Australia's Bureau of Agriculture and Resource Economics (ABARE) is due to issue a report on June 10, 2003, which will contain an updated cotton production forecast for 2003/04.

Production

Cotton production in 2003/04 is forecast at 340,000 MT, six percent higher than the drought-reduced 2002/03 harvest. The 340,000 MT figure for 2003/04 is well above the 173,000 MT forecast by ABARE in their February 2003 Crop Report and also higher than most industry sources, which are projecting the crop at about 227,000 MT (1.4 million bales). Despite the pessimistic outlook, sowing of the 2003/04 crop is not due to commence until November 2003. Recent rains have signaled a return to more normal weather conditions and have helped improve the outlook for the 2003/04 summer-sown crop.

Despite an anticipated return to normal weather conditions in 2003/04, prolonged drought across much of the Australian continent, including major catchment areas, has left irrigation water availabilities at historically low levels. As a result, irrigation shortages will likely result in a sharp curtailment in allotments for irrigated cotton. Furthermore, many areas which traditionally grow dryland cotton are suffering extremely low soil moisture levels to depth. Thus, even with a return to more normal weather conditions, output will still be constrained to well below normal levels.

Post has revised cotton production in 2002/03 to 320,000 MT, which represents the lowest production level since 1989/90. This 320,000 MT is roughly in line with industry estimates, but is sharply higher than ABARE's last estimate (February 2003) of 262,000 MT. Despite a lack of irrigation water and extremely low soil moisture, which sharply constrained cotton area, higher than expected yields pushed production above the previous more pessimistic level. Of note, ABARE's current 262,000 MT estimate for 2002/03 was revised upward from their previous (December 2002) projection of 238,000 MT.

Area: Cotton area in 2003/04 is forecast at 220,000 hectares, well above the 145,000 hectares forecast by ABARE in February 2003, but only about five percent higher than the reduced 2002/03 level. Recent rains in southern Queensland have increased soil moisture levels and improved irrigation water availabilities in some areas, signaling a return to more normal conditions leading up to the 2003/04 season. Also, producers that had reduced cotton output in 2002/03 will be seeking to recoup in 2003/04.

Cotton area for 2002/03 is now estimated at 210,000 hectares, almost half the level of the previous year and representing the lowest cotton area since 1992/93. Widespread drought across much of the Australian continent in 2002/03 dramatically reduced the area dedicated to cotton. Virtually no dryland cotton was planted due to the extreme lack of soil moisture and planting of the irrigated crop was constrained by shortages of irrigation water, which sharply reduced water allocations. ABARE's most recent figures have cotton area in 2002/03 at 192,000 hectares. Industry sources, however, estimate that cotton area in 2002/03 was about 210,000 hectares.

In a typical year, over 90 percent of the Australian cotton area is irrigated. Upland cotton accounts for the bulk of production; pima production is only about 1-2 percent of the total. Of total cotton area, about two thirds is typically grown in New South Wales and the rest in Queensland.

Yield: The national average cotton yield in 2003/04 is forecast at 1.55 MT/hectare, roughly equal to a five year average yield. An anticipated minimal planting of dryland cotton in 2003/04 should also keep overall average yields relatively high.

Cotton yield in 2002/03 is estimated at 1.52 MT/hectare, sharply lower than the 1.73 MT/hectare in 2001/02, but only slightly lower than the five year average. The 2002/03 yield figure surpassed earlier expectations given the extreme lack of irrigation water and almost no significant rainfall during the growing season. The higher than expected yield is partly attributed to extremely limited plantings of lower yielding dryland cotton, a lack of insect pressure, and low incidence of disease. The dry, hot weather during the growing season increased water demand, but also benefitted yields of irrigated cotton. Some individual farms in the northern part of the state of New South Wales turned in record cotton yields.

Biotech Cotton: Biotech cotton has been grown commercially in Australia since 1996/97, and along with carnations is the only biotech crop approved for commercial release in the environment. The first biotech cotton variety was Monsanto Australia's Ingard (Bt). Mostly for insect resistence management, the Australian government restricts the use of Ingard to about 30 percent of total cotton area. This maximum area was reached in 2000/01.

Other biotech cottons have subsequently been approved for commercial release by Australia's Office of the Gene Technology Regulator, including Roundup Ready cotton and, more recently, Monsanto Australia's Bollgard II. Bollgard II contains two bacterial (Bt) genes which provide additional protection from insects and delays the development of insect resistence to the Bt toxin. Unlike Ingard, there is no area cap for Bollgard II. A limited amount of Bollgard II was planted in 2002/03, with increased plantings expected in 2003/04.

Australia's producers using biotech cotton report sharply lower insect damage and greatly reduced chemical use. According to Australia's Commonwealth Scientific Industrial Research Organization (CSIRO), biotech cotton has led to a 50 percent reduction in pesticide requirements. According to CSIRO, the demand to introduce biotech cotton is being driven by reduced chemical usage.

With the introduction of Bollgard II, Australia's biotech cotton area is expect to move above the 50 percent mark that likely characterized the 2002/03 crop.

Trade

Exports: Cotton exports in 2003/04 are forecast to fall to 438,000 MT, 11 percent below the estimate for the previous year. Historically low production is placing downward pressure on exports; however, a draw-down in cotton stocks is expected to forestall a larger decline. ABARE projects cotton exports falling to levels not seen since 1987/88, more in line with their substantially lower 2003/04 cotton production forecast.

Cotton exports in 2002/03 are estimated at 489,000 MT, down sharply from the 675,000 MT recorded by the Australia Bureau of Statistics (ABS) in 2001/02. ABS year-to-date statistics for 2002/03 (August to February) suggest a larger export figure; however, post anticipates exports to fall rather substantially for the remainder of the year.

According to ABS statistics for 2001/02, Indonesia is Australia's largest export market taking 27 percent of total exports. Indonesia, Japan, South Korea, Thailand and India are Australia's five largest markets, taking a total of 78 percent of Australia's total cotton exports in 2001/02.

A rapidly appreciating Australian dollar, versus the U.S. dollar, has reduced the local currency proceeds from Australia's cotton exports, and also returns to growers. Since reaching a low of A$1.0 equivalent to less than US$0.50 in late 2001, the A$1.0 is now valued at about US$0.65.

SECTION II: STATISTICAL TABLES

PSD Table						
Country	Australia					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	0	0	0	0	0
Area Harvested	420000	403000	225000	210000	0	220000
Beginning Stocks	456137	444953	480958	460768	225129	289858
Production	696725	693000	304817	320000	0	340000
Imports	0	372	0	400	0	400
TOTAL SUPPLY	1152862	1138325	785775	781168	225129	630258
Exports	675170	675380	555203	489133	0	437709
USE Dom. Consumption	32659	38102	27216	38102	0	38102
Loss Dom. Consumption	-35925	-35925	-21773	-35925	0	-35925
TOTAL Dom. Consumption	-3266	2177	5443	2177	0	2177
Ending Stocks	480958	460768	225129	289858	0	190372
TOTAL DISTRIBUTION	1152862	1138325	785775	781168	0	630258

Import Trade Matrix			
Country	Australia		
Commodity	Cotton		
Time period	Yr End Jul	Units:	MT
Imports for:	2002		2003
U.S.	41	U.S.	21
Others		Others	
Indonesia	127	India	37
India	65	Pakistan	24
Malaysia	35	Belgium	15
Turkmenistan	26	Vietnam	4
Pakistan	17	Italy	1
Belgium	15	United Kingdom	1
France	14		
Japan	4		
Rep of Korea	2		
Total for Others	305		82
Others not Listed	26		0
Grand Total	372		103

Note: Figures for 2003 are partial year only (August to February)

Export Trade Matrix			
Country	Australia		
Commodity	Cotton		
Time period	Yr End Jul	Units:	MT
Exports for:	2002		2003
U.S.	684	U.S.	244
Others		Others	
Indonesia	181898	Indonesia	113960
Japan	115828	Rep of Korea	60484
Rep of Korea	93438	Japan	58971
Thailand	87354	Thailand	54992
India	44264	China	21404
Pakistan	24956	Italy	12019
Italy	23867	Taiwan	11868
Taiwan	17992	Ireland	6863
Hong Kong	15960	Pakistan	6646
China	13881	Bangladesh	4879
Total for Others	619438		352086
Others not Listed	55258		30750
Grand Total	675380		383080

Note: Figures for 2003 are partial year only (August to February)